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 **1983**
ANNUAL
REPORT

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University of Alberta



CHIPMAN

MINING AND ENERGY CORPORATION LTD.

UNIVERSITY OF ALBERTA
FACULTY OF BUSINESS ADMINISTRATION
428 CENTRAL ACADEMIC BLDG.
EDMONTON, ALBERTA T6G 2G1

Corporate and General Information

Directors:

Jess H. Chua, Ph. D., Chairman of the Financial Management Area, Faculty of Management, University of Calgary
J. R. Percy, B.A., President, Alterwords Ltd., Toronto
Garnet M. Schulhauser, Partner of Burnet, Duckworth & Palmer, Barristers & Solicitors, Calgary
C. M. Tirkanits, President of the Company
N. M. Tirkanits, P. Eng., Chairman of the Board, President of New Campbell Island Mines Ltd., Calgary
Eivind Urbye, President, Samos Navigation, Inc., Paris, France

Officers:

N. M. Tirkanits, Chairman of the Board
C. M. Tirkanits, President
Garnet M. Schulhauser, Vice President Law, Secretary
Jess H. Chua, Vice President Finance
Ester C. del Rosario, Treasurer, Accountant

Corporate Head Office:

Chipman Mining and Energy Corporation Ltd.
Suite 630, Canada Place
407 Second Street S.W.
Calgary, Alberta T2P 2Y3
Telephone: (403) 237-6447 Telex: 03 827886

Office Administration:

Thomas A. Tirkanits, Land Department Manager
Sheila Smashnuk, Secretary
Graham Irish, Assistant Accountant

Registrar and Transfer Agent:

Central Trust Company, Calgary, Alberta; Toronto, Ontario; Montreal, Quebec

Bankers:

Bank of Montreal	Toronto Dominion Bank	First Interstate Bank of Utah
Main Office	2 Calgary Place	Suite 237, ZCMI Center,
340 - 7th Avenue, S.W.	340 - 5th Avenue, S.W.	Salt Lake City, Utah
Calgary, Alberta T2P 0X4	Calgary, Alberta T2P 2P6	USA, 84111

Auditors:

Campbell Sharp, Chartered Accountants
Suite 2400, One Palliser Square
125 - 9th Avenue, S.E.
Calgary, Alberta T2G 0P6

Engineers and Geologists:

Bar Engineering Ltd., Heavy Oil Engineering, Lloydminster
Farries Engineering (1977) Ltd., Petroleum Consultants, Calgary
Lundberg - Tirkanits and Associates Limited, Professional Engineers, Calgary, Toronto
Mr. John Zeisloft, Consulting Geologist, Holliday, Utah
Mr. David Smith, Geode Consulting, Consulting Geologist, Calgary

Legal Counsels:

Burnet, Duckworth & Palmer	Pruitt, Gushee & Fletcher
32nd Floor	Suite 1850
425 - 1st Street, S.W.	Beneficial Life Tower
Calgary, Alberta T2P 3L8	Salt Lake City, Utah U.S.A. 84111
Telephone: (403) 260-0100 Telex: 03 825585	Telephone: (801) 531-8446

Stock Exchange Listing:

Alberta Stock Exchange, Calgary, Trading Symbol "CML"

Subsidiary Company:

Cimarron Petroleum Corporation (Utah)

Executive Office:

Suite 630, Canada Place

407 - 2nd Street, S.W.

Calgary, Alberta T2P 2Y3

Telephone: (403) 237-6447 Telex: 03 827886

Field Office:

3597 South 150 East

Bountiful, Utah

U.S.A. 84111

Telephone: (801) 295-2871

Corporate Profile

Chipman Mining and Energy Corporation Ltd. is a growth oriented Canadian resource and energy company. The Company was incorporated in 1970. The Company is actively engaged in the exploration and development of petroleum resources in the provinces of Alberta and Saskatchewan. The Company is also active in Montana, Utah and New Mexico. The Company has been in crude oil production since 1979.

Cimarron Petroleum Corporation (Utah), a wholly owned U.S. subsidiary, controls the exploration and development of the leases in the United States.

As a Canadian controlled company, Chipman Mining and Energy Corporation Ltd. has applied for, and received 100% C.O.R. rating. This allows Chipman Mining and Energy Corporation Ltd. to receive the maximum Petroleum Incentive Program grants.

As a result of the August 23rd, 1983 agreement between the federal government and the government of Saskatchewan, Chipman Mining and Energy Corporation Ltd.'s entire crude oil production now qualifies for the NORP Price regime.

During 1983 the Company's expansion program included a move to a larger and more modern corporate head office and the organization of a larger Land and Exploration Department.

Letter to the Shareholders:

On behalf of the Board of Directors, we are pleased to present herewith the Annual Report for the year ended October 31, 1983 for Chipman Mining and Energy Corporation Ltd.

The objective of Chipman Mining and Energy Corporation Ltd. is to build itself into a major producer in the petroleum industry. This requires the generation of larger earnings, continued expansion of producing properties and further development of existing properties in Alberta, Saskatchewan, Montana, New Mexico, Utah and other areas. In addition, your Management is aggressively pursuing the acquisition of high income yielding properties in Alberta and Saskatchewan.

During the past year your Company made great efforts toward reaching this goal. Chipman Mining and Energy Corporation Ltd. has taken steps to expand beyond its traditional base of heavy oil production. During 1983 your Company was successful in acquiring several excellent properties. The main areas of interest for exploration and acquisition were the Judy Creek and Goose River areas of Alberta and the Steelman area of Saskatchewan. Preliminary work on these leases is progressing. Engineering, geological and feasibility studies on these properties are scheduled for 1984.

Your Company's financial position over the past year improved with the retirement of the initial production bank loan of \$550,000 with the Toronto Dominion Bank. This has increased your Company's equity base for expansion.

The relocation of the Company's head office to larger and more central premises has greatly facilitated the expansion program. The expansion program should strengthen the ability to meet the fundamental goals of contributing to oil and gas self-sufficiency for Canada, making sufficient profits to finance further growth and providing shareholders with an outstanding return on their investment.

The past year saw a decided advancement in Chipman Mining and Energy Corporation Ltd.'s performance. The Board of Directors of the company acknowledges the contribution of all employees and shareholders toward the projected goal.

Calgary, Alberta
1983, 12, 14

Submitted on behalf of the
Board of Directors

C.M. Tirkanits
President

Chipman Mining and Energy Corporation Ltd.

Suite 630, CANADA PLACE

407 Second Street, S.W.

Calgary, Alberta T2P 2Y3



PARTIAL MAP OF CANADA AND U.S.A.



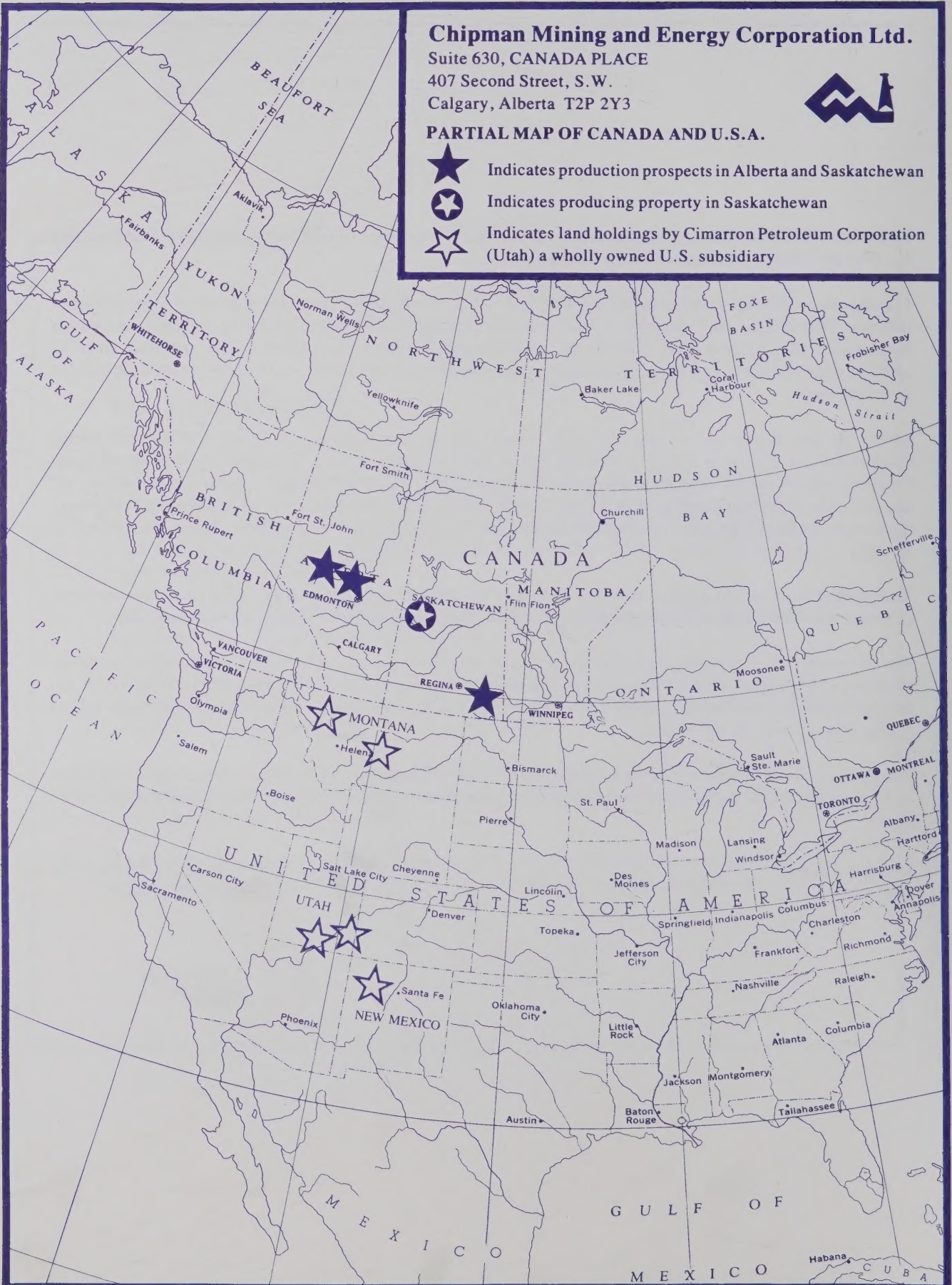
Indicates production prospects in Alberta and Saskatchewan



Indicates producing property in Saskatchewan



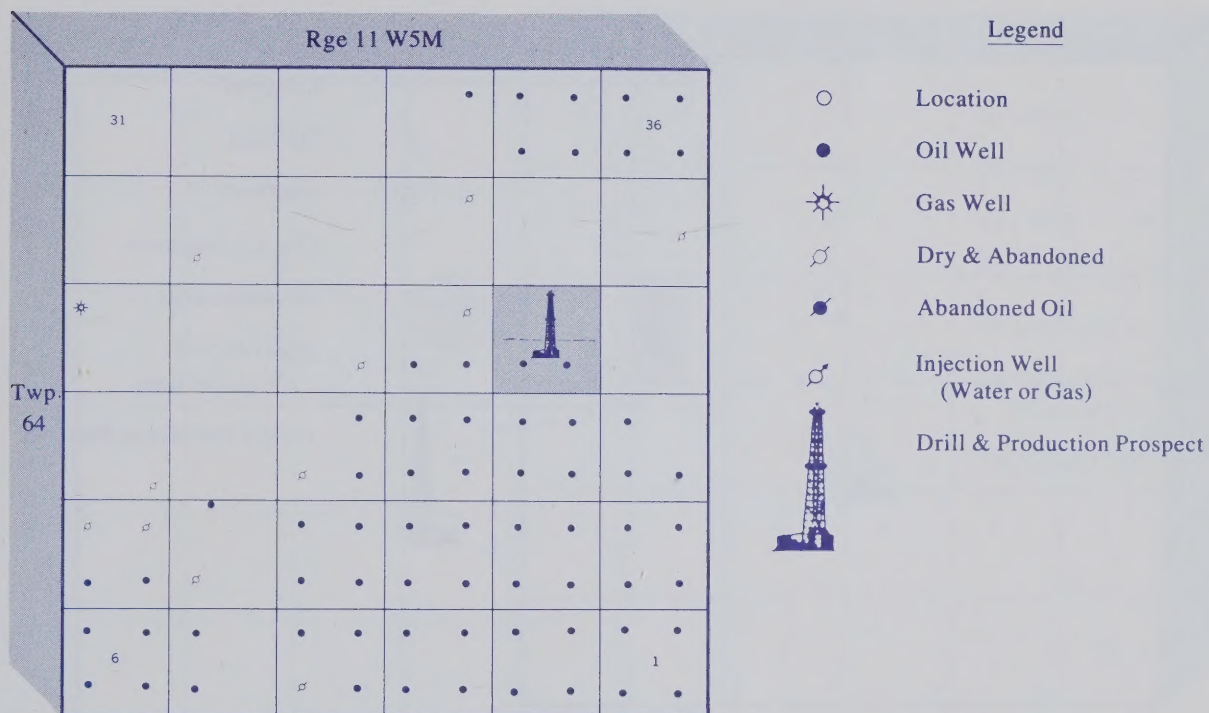
Indicates land holdings by Cimarron Petroleum Corporation (Utah) a wholly owned U.S. subsidiary



Petroleum Exploration, Development and Production—Canada

Alberta

Judy Creek Area:



Location: N ½ 23-64-11 W5M

Area: 320 Acres

Ownership: 100% Chipman Mining and Energy Corporation Ltd.

Location: S ½ 23-64-11 W5M

Area: 320 Acres

Ownership: Deep Rights Only - 100% Chipman Mining and Energy Corporation Ltd.

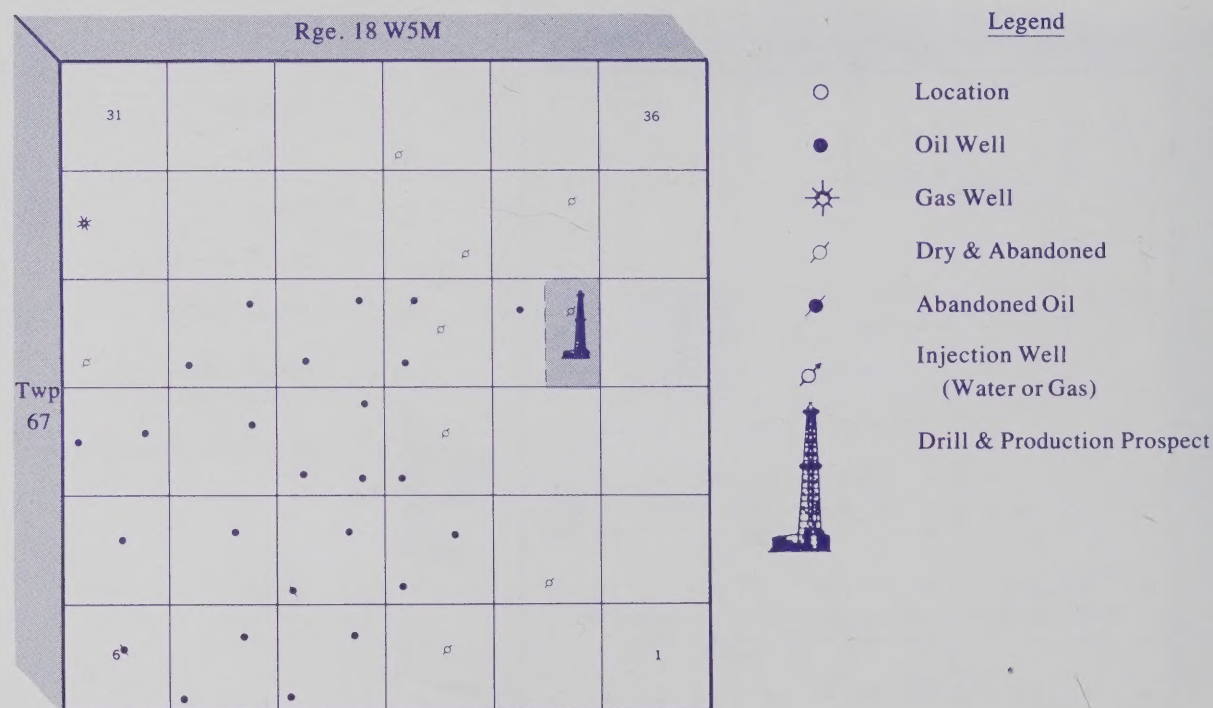
This property is in the Judy Creek area of Alberta and was acquired in 1983.

The initial investigation, including engineering and geological reports on these leases is tentatively scheduled for 1984. Petroleum and natural gas is anticipated from three separate zones from the N ½ 23-64-11 W5M and from one zone from the S ½ 23-64-11 W5M where only the deep rights are owned by Chipman Mining and Energy Corporation Ltd.

Petroleum Exploration, Development and Production—Canada

Alberta

Goose River Area:



Location: E ½ 23-67-18 W5M

Area: 320 Acres

Ownership: 100% Chipman Mining and Energy Corporation Ltd.

The Goose River area lease was obtained through an Alberta Crown Offering of Petroleum and Natural Gas Rights.

Detailed examinations of this property are currently underway.

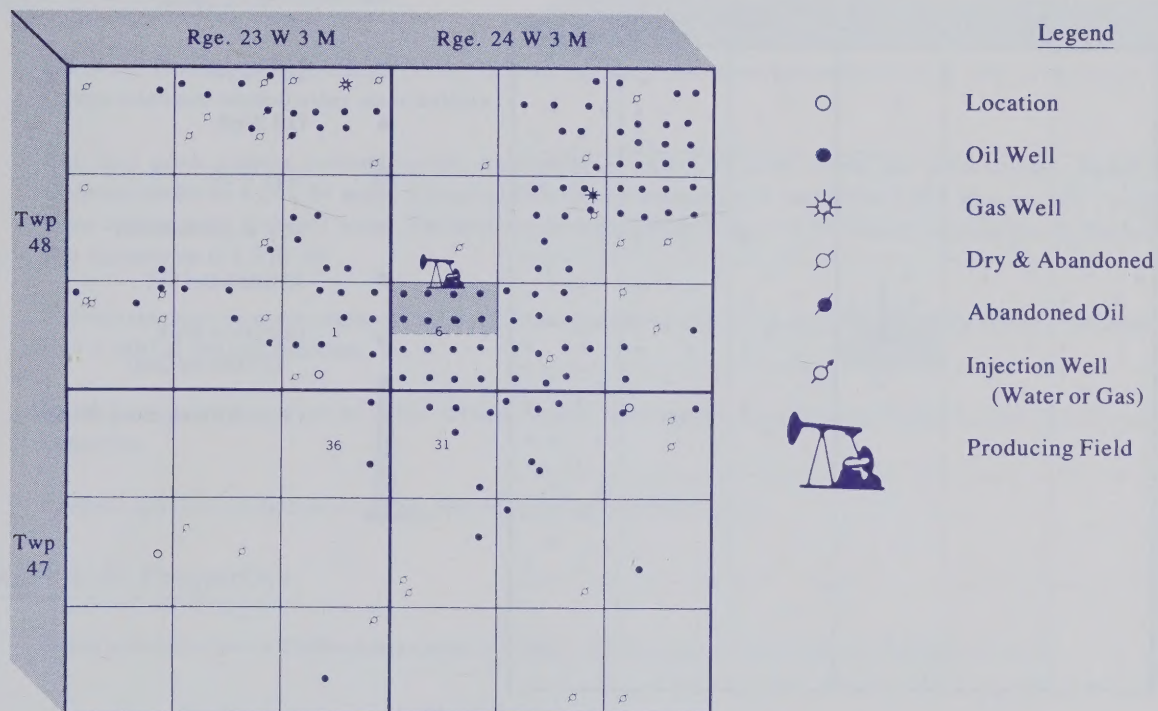
Geological interpretation of the old logs of the well drilled on the property in 1966 and classified as dry and abandoned, appears to indicate that this well may be a potential producer. (The wellhead price of oil in the Goose River area in 1966 was \$2.56/barrel).

To date, the information that has been received by Chipman Mining and Energy Corporation Ltd., is very good with existing showings of petroleum in two zones.

Petroleum Exploration, Development and Production—Canada

Saskatchewan:

Maidstone Area:



Location: N ½-6-48-23-W3M

Your Company holds 100% interest in lease number PN-16037 consisting of 320 acres. As a result of the agreement between the Federal government and the government of Saskatchewan, all wells on this lease now qualify for the NORP price.

Revenue History

	Production Income
1979	—
1980	\$487,859.00
1981	\$656,856.00
1982	\$800,135.00
1983	\$701,495.00

An independent engineering evaluation indicated the following oil in place reserves in the 1981 year:

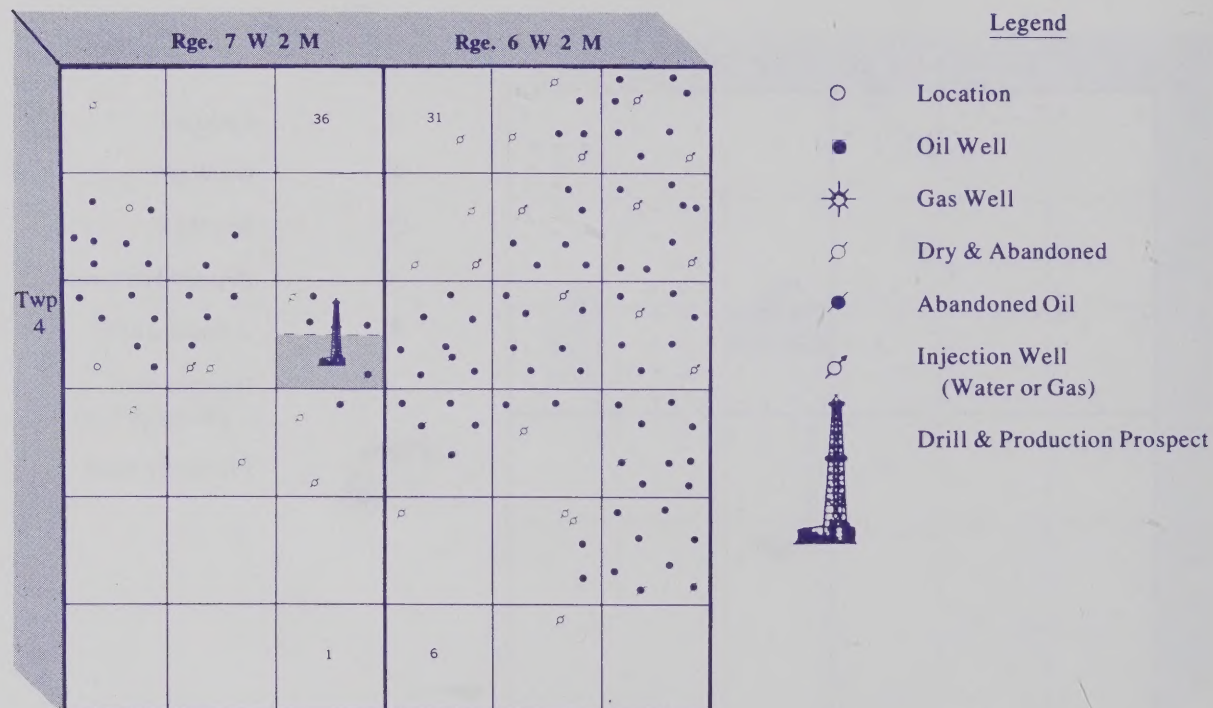
1) McLaren Sand	1,184,000m ³	(7,445,000 bbls)
2) Waseca Sand	459,506m ³	(2,890,296 bbls)
	1,643,506m ³	(10,335,296 bbls)

It was estimated by independent engineers that about 5.6% may be recovered by primary methods on the present spacing. The total production so far was 21,943m³ from the McLaren Sand.

Petroleum Exploration, Development and Production—Canada

Saskatchewan

Steelman Area:



Location: S ½ 24-4-7 W2M

Area: 320 Acres

Ownership: 100% Chipman Mining and Energy Corporation Ltd.

This property is a recent acquisition. Chipman Mining and Energy Corporation Ltd. is working on geological, engineering and economic evaluations of initiating production from within this field.

Petroleum Exploration, Development and Production — U.S.A.

Cimarron Petroleum Corporation (Utah):

In 1982 Chipman Mining and Energy Corporation Ltd. acquired control of a U.S. based oil and gas exploration and development company, Cimarron Petroleum Corporation (Utah).

Since the time of the acquisition, Chipman Mining and Energy Corporation Ltd.'s lease holdings in the United States have been operated by Cimarron Petroleum Corporation (Utah).

Ryan Creek Unit Agreement:

Cimarron Petroleum Corporation (Utah) entered into an Unitization Agreement in July 1982 with Mobil Oil Corporation and several other lease holders.

The total gross acreage covered by this Agreement is 12,617.81 acres. From this gross acreage Mobil Oil Corporation holds 6,263.84 acres, Cimarron Petroleum Corporation (Utah) holds 4,929.56 acres and "other" lease holders hold 1,424.41 acres. The total net acreage held by Cimarron Petroleum Corporation (Utah) under this Agreement is 4,538.14.

The Agreement was approved by the Minerals Management Service (U.S.A.) with Cimarron Petroleum Corporation (Utah) as the unit operator.

In 1982 two test wells were drilled to shallow depths. Both wells showed hydrocarbons, but not in commercial quantities.

Larger capital expenditures will be required to explore the deeper zones.

Other U.S. Properties:

Other properties in the United States held by Cimarron Petroleum Corporation (Utah) are as follows:

	<u>Lease Serial Number</u>	<u>Acreage</u>	<u>% Interest</u>
<u>Utah</u>			
Grand County Lease	U-25965	275.22	94 %
<u>Montana</u>			
Pondera County Lease	M-29740	80.00	89.5 %
Valley County Lease	M-53888	200.00	97 %
<u>New Mexico</u>			
Catron County	NM-51473	1,436.55	100 %

Auditor's Report

To the Shareholders of
Chipman Mining and Energy Corporation Ltd.

We have examined the consolidated balance sheet of Chipman Mining and Energy Corporation Ltd. as at October 31, 1983 and the consolidated statements of earnings and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta,
November 28, 1983.



Chartered Accountants.

Chipman Mining and Energy Corporation Ltd.

Consolidated Balance Sheet

October 31, 1983


<u>Assets</u>	<u>1983</u>	<u>1982</u>
Current		
Cash	56,621	73,374
Accounts receivable (note 2)	118,581	167,838
Inventory	22,700	20,700
Deposits	10,000	10,000
Prepaid expenses	13,085	14,095
	220,987	286,007
Resource properties and Equipment (note 3)	880,369	914,196
	<u>\$1,101,356</u>	<u>\$1,200,203</u>

<u>Liabilities</u>		
Current		
Accounts payable and accrued liabilities (note 4)	62,884	63,285
Royalties payable	9,812	43,880
Petroleum and gas revenue tax payable	39,422	26,893
Incremental oil revenue tax payable	—	14,977
Current portion of long-term debt	100,000	—
	212,118	149,035
Long-term Debt (note 5)	300,000	562,017
Deferred Income Taxes	39,000	—
	<u>551,118</u>	<u>711,052</u>

<u>Shareholder's Equity</u>		
Capital (note 6)	1,952,131	1,944,131
Share Subscription Received (note 6)	—	8,000
Contributed Surplus	17,559	17,559
Deficit	(1,419,452)	(1,480,539)
	<u>550,238</u>	<u>489,151</u>
	<u>\$1,101,356</u>	<u>\$1,200,203</u>

The financial statements have
been approved by the Board

Director



Director



Chipman Mining and Energy Corporation Ltd.

Consolidated Statement of Earnings and Deficit for the year ended October 31, 1983

	<u>1983</u>	<u>1982</u>
Revenue		
Production income	701,495	800,135
Royalties	<u>(157,711)</u>	<u>(220,466)</u>
	543,784	579,669
Well servicing assistance credits	—	4,726
Gain on sale of royalty interest	—	183,885
Gain on foreign exchange	71	—
Other	<u>6,699</u>	<u>6,240</u>
	550,554	774,520
Expenses		
Production	160,739	176,002
General and administrative		
- consulting and professional fees	35,289	44,783
- other	115,758	125,109
Interest	52,422	168,080
Depreciation and depletion	<u>86,259</u>	<u>115,661</u>
	450,467	629,635
Earnings Before Income Taxes	100,087	144,885
Income and Other Taxes	<u>39,000</u>	<u>48,105</u>
Net Earnings	61,087	96,780
Deficit, beginning of year	<u>(1,480,539)</u>	<u>(1,577,319)</u>
Deficit, end of year	<u><u>\$(1,419,452)</u></u>	<u><u>\$(1,480,539)</u></u>

Chipman Mining and Energy Corporation Ltd.

Consolidated Statement of Changes in Financial Position for the year ended October 31, 1983

	<u>1983</u>	<u>1982</u>
Working Capital Increased by		
Operations		
Net Earnings	61,087	96,780
Items not affecting working capital		
Depreciation	33,400	47,041
Depletion	52,859	68,620
Deferred income taxes	39,000	—
Working capital increased by operations	186,346	212,441
Long-term debt	—	11,049
Petroleum Incentive payments	—	32,839
Share subscription received	—	8,000
	<u>186,346</u>	<u>264,329</u>
Working Capital Decreased by		
Reduction of long-term debt	262,017	—
Purchase of		
Resource properties	25,308	128,685
Production equipment	—	50,880
Furniture and fixtures	4,123	—
Reduction of Petroleum Incentive payments	23,001	—
	<u>314,449</u>	<u>179,565</u>
(Decrease) Increase in Working Capital	<u>(128,103)</u>	<u>84,764</u>
Working Capital, beginning of year	<u>136,972</u>	<u>52,208</u>
Working Capital, end of year	<u>\$ 8,869</u>	<u>\$136,972</u>

Chipman Mining and Energy Corporation Ltd.

Notes to the Consolidated Financial Statements

October 31, 1983

1. Significant Accounting Policies

a) Principle of consolidation

The consolidated financial statements include the accounts of the company and its wholly owned subsidiary, Cimarron Petroleum Corporation.

b) Change in Accounting Policy

During the year the company adopted the recent Canadian Institute of Chartered Accountants recommendations on translation of foreign currency.

Accounts in U.S. dollars have been translated into Canadian funds on the following basis:

- i) current assets, current liabilities at the year-end exchange rate;
- ii) all other assets at the rate of exchange prevailing at the date of the transaction;
- iii) revenue and expenses at the average rate of exchange during the year, except for depreciation and depletion which are on the same basis as the related asset.

All translation gains or losses are included in the consolidated statement of earnings. Previously all unrealized exchange gains or losses were deferred in the accounts. Prior year's statements have not been adjusted as the effect of the change in accounting policy is not material.

c) Inventory

Crude oil inventory is valued at net realizable value.

d) Resource properties and depletion

The company follows the full cost method of accounting, under which all costs relating to the exploration for and development of oil and gas reserves are capitalized, whether productive or non-productive. Depletion is computed on the total of all such costs on the unit of production method based upon the total estimated proven reserves of oil and gas.

Saskatchewan production incentive credits are income if sold before they are earned, otherwise they are a reduction in cost of resource properties.

Chipman Mining and Energy Corporation Ltd.

Notes to the Consolidated Financial Statements

October 31, 1982

1. Significant Accounting Policies (Continued)

e) Depreciation

Declining balance depreciation is applied to write-off the cost of petroleum and natural gas production equipment and other equipment over their estimated lives at the rates of thirty percent and twenty per cent respectively.

	<u>1983</u>	<u>1982</u>
2. Accounts Receivable		
Trade	84,473	134,568
Affiliated companies	24,024	23,411
Shareholders	<u>10,084</u>	<u>9,859</u>
	<u>\$118,581</u>	<u>\$167,838</u>
3. Resource Properties and Equipment, at cost		
Resource properties inclusive of exploration and development expenditures thereon	1,063,812	1,038,504
Petroleum Incentive Program grant	(9,838)	(32,839)
Accumulated depletion	(256,314)	(203,455)
Petroleum and natural gas production equipment	333,598	333,598
Other	10,290	6,167
Accumulated depreciation	<u>(261,179)</u>	<u>(227,779)</u>
	<u>\$880,369</u>	<u>\$914,196</u>
4. Accounts Payable and Accrued Liabilities		
Trade	57,677	54,543
Affiliated companies	5,015	8,742
Shareholders	<u>192</u>	<u>—</u>
	<u>\$62,884</u>	<u>\$63,285</u>
5. Long-term Debt		
Loan bearing interest of 11% per annum	400,000	400,000
Bank demand loan	—	155,000
Advances from an affiliated company	<u>—</u>	<u>7,017</u>
	400,000	562,017
Amounts due within one year	<u>100,000</u>	<u>—</u>
	<u>\$300,000</u>	<u>\$562,017</u>

Principal repayments in the next 3 years are:

1984	100,000
1985	150,000
1986	150,000

Chipman Mining and Energy Corporation Ltd.

Notes to the Consolidated Financial Statements

October 31, 1983

6. Capital

	<u>1983</u>	<u>1982</u>
Authorized		
5,000,000 common shares without par value		
Issued		
3,889,160 common shares	<u>\$1,952,131</u>	<u>\$1,944,131</u>

During the year, 20,000 shares of the capital stock of Chipman Mining and Energy Corporation Ltd. subscribed for in 1982 were issued for \$8,000.

Stock options outstanding at October 31, 1983, granted to affiliated companies, officers and employees are:

<u>Date of Expiration</u>	<u>Exercise Price</u>	<u>1983 Shares</u>	<u>1982 Shares</u>
July 1, 1984	.45	2,000	2,000
July 1, 1985	.45	2,000	2,000
December 2, 1986	1.65	50,000	50,000
July 6, 1987	.45	250,000	250,000
Expired in 1983		—	17,000
Total Option Outstanding		<u>304,000</u>	<u>321,000</u>

7. Related Party Transactions

In the normal course of business the company engages the services of an affiliated company which is also a shareholder to supply consulting services. Payments under various contracts were \$110,272 (1982 - \$84,232).

8. Earnings per Share

	<u>1983</u>	<u>1982</u>
Earnings per share	.02	.03

Earnings per share are calculated using the weighted average number of shares outstanding during the year.

The exercise of options outlined in Note 6 would be anti-dilutive and accordingly fully diluted earnings per share has not been presented.

9. Income Taxes

The company follows the tax allocation method of accounting for income taxes. As at October 31, 1983 the company had approximately \$473,000 of deductible exploration and development expenses available to be carried forward and applied to future years' taxable income.

10. Segmented Information

Information relating to the company's operations by geographic segment for the year ended October 31, 1983 is summarized as follows:

	<u>1983</u>		
	<u>Canada</u>	<u>United States</u>	<u>Total</u>
Petroleum and natural gas sales	701,495	—	701,495
Income (loss) before taxes	112,146	(12,059)	100,087
Total assets	958,024	143,332	1,101,356
	<u>1982</u>		
	<u>Canada</u>	<u>United States</u>	<u>Total</u>
Petroleum and natural gas sales	800,135	—	800,135
Income before taxes	61,560	83,325	144,885
Total assets	1,025,242	174,961	1,200,203

